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MISSOURI LOTTERY

FINANCIAL STATEMENTS AS OF  
JUNE 30, 1992 AND 1991  
TOGETHER WITH AUDITORS' REPORT

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Arthur Andersen & Co.

111 Market Street  
St. Louis, MO 63101

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Missouri Lottery Commission:

We have audited the accompanying balance sheets of the Missouri Lottery and the Missouri Lottery Grand Prize Winners Trust Account as of June 30, 1992 and 1991, and the related statements of revenues, expenditures and retained earnings, cash flows and changes in grand prize winners trust account for the years then ended. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Missouri Lottery and the Missouri Lottery Grand Prize Winners Trust Account as of June 30, 1992 and 1991, and the results of operations, cash flows and changes in grand prize winners trust account for the years then ended in conformity with generally accepted accounting principles.

*Arthur Andersen & Co.*

St. Louis, Missouri,  
September 18, 1992

MISSOURI LOTTERY

BALANCE SHEETS AS OF JUNE 30, 1992 AND 1991

|  | <u>1992</u>  | <u>1991</u>  |
|--|--------------|--------------|
| <u>ASSETS</u>                            |              |              |
| CURRENT ASSETS:                          |              |              |
| Cash                                     | \$12,729,233 | \$10,768,436 |
| Accounts receivable                      | 2,248,898    | 2,947,939    |
| Instant ticket inventories               | 130,890      | 76,098       |
| Other receivables                        | 200,361      | 21,425       |
|  | -----        | -----        |
| Total current assets                     | 15,309,382   | 13,813,898   |
| PROPERTY AND EQUIPMENT                   | 3,620,159    | 3,394,825    |
|  | -----        | -----        |
| Total assets                             | \$18,929,541 | \$17,208,723 |
|  | =====        | =====        |
| <u>LIABILITIES AND RETAINED EARNINGS</u> |              |              |
| CURRENT LIABILITIES:                     |              |              |
| Accounts payable                         | \$ 2,700,906 | \$ 2,809,040 |
| Due to General Revenue Fund              | 5,326,894    | 5,045,936    |
| Accrued prize liabilities                | 8,351,297    | 7,809,059    |
| Other accrued liabilities                | 635,431      | 734,257      |
| Capital lease obligations                | 108,296      | -            |
|  | -----        | -----        |
| Total current liabilities                | 17,122,824   | 16,398,292   |
| CAPITAL LEASE OBLIGATIONS                | 304,354      | -            |
| OTHER DEFERRED LIABILITIES               | 1,502,363    | 810,431      |
| RETAINED EARNINGS                        | -            | -            |
|  | -----        | -----        |
| Total liabilities and retained earnings  | \$18,929,541 | \$17,208,723 |
|  | =====        | =====        |

The accompanying notes are an integral part of these balance sheets.

MISSOURI LOTTERY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 1992 AND 1991

|   | <u>1992</u>  | <u>1991</u>  |
|---|--------------|--------------|
| CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES:                                       |              |              |
| Income before transfers   | \$67,055,135 | \$66,555,952 |
| Adjustments to reconcile income before transfers to net cash used for operating activities-   |              |              |
| Operating transfers   | (67,055,135) | (66,555,952) |
| Legislative transfer  | -            | (8,595,479)  |
| Depreciation  | 896,029      | 1,155,882    |
| Grand prizes deferred   | 18,665,812   | 12,858,673   |
| Transfers to Grand Prize Winners Trust Account  | (18,665,812) | (12,858,673) |
| Change in assets and liabilities-   |              |              |
| Decrease (increase) in accounts receivable  | 699,041      | (910,396)    |
| Increase in other receivables   | (178,936)    | (8,275)      |
| Increase in instant ticket inventories  | (54,792)     | (76,098)     |
| (Decrease) increase in accounts payable and other accrued liabilities                         | (206,960)    | 852,543      |
| Increase in accrued prize liabilities   | 542,238      | 1,243,684    |
| Increase (decrease) in due to General Revenue Fund  | 972,889      | (1,027,654)  |
|   | -----        | -----        |
| Net cash provided by (used for) operating activities  | 2,669,509    | (7,365,793)  |
|   | -----        | -----        |
| CASH FLOWS FROM INVESTING ACTIVITIES- Additions to property and equipment, net of retirements | (650,435)    | (443,902)    |
|   | -----        | -----        |
| Net cash used for investment activities   | (650,435)    | (443,902)    |
|   | -----        | -----        |
| CASH FLOWS FROM FINANCING ACTIVITIES- Payments on capital lease obligations                   | (58,277)     | -            |
|   | -----        | -----        |
| Net cash used for financing activities  | (58,277)     | -            |
|   | -----        | -----        |
| Net increase (decrease) in cash   | 1,960,797    | (7,809,695)  |
| CASH AT BEGINNING OF YEAR   | 10,768,436   | 18,578,131   |
|   | -----        | -----        |
| CASH AT END OF YEAR   | \$12,729,233 | \$10,768,436 |
|   | =====        | =====        |

The accompanying notes are an integral part of these statements.

# MISSOURI LOTTERY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1992 AND 1991

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Missouri Lottery (the Lottery) is accounted for as a proprietary type enterprise fund, is a component unit of the State of Missouri and is exempt from income taxes. The financial statements are prepared in accordance with generally accepted accounting principles on the accrual basis of accounting and conform with practices generally followed in the gaming industry.

#### Revenue Recognition

Sales of on-line lottery tickets are generated by the semiweekly "LOTTO" and "Missouri Megabucks/Powerball" ("Lotto\*America") and the daily "SUPERCASH" and "PICK 3" games. Sales of lottery tickets are made through licensed retail sales outlets via on-line terminals maintained by the retailers. Ticket sales are recognized at the time the player purchases a ticket from the retailer.

Sales of instant lottery tickets are made to licensed retail sales outlets with the right of return. Ticket sales are recognized upon the sale of tickets to licensed retailers and are valued at the sale price to the player. Allowances have been established for estimated tickets to be returned by retailers of approximately \$259,000 and \$327,000 at June 30, 1992 and 1991, respectively.

Sales of pull-tab lottery tickets are made to licensed retail sales outlets with no right of return. Ticket sales are recognized upon the sale of tickets to retailers and are valued at the sale price to the player.

#### Prizes

Expenditures for on-line lottery ticket prizes are recorded based on a minimum of 45% of on-line lottery ticket sales. The minimum grand prize amount for the semiweekly "LOTTO" game is \$1,000,000. The "LOTTO" grand prize claims are paid in 20 annual installments. Any prize that remains unclaimed for one year from the date of the on-line game drawing is used to fund future prize pools.

Expenditures for instant lottery ticket and pull-tab lottery ticket prizes are recorded based upon the unique, predetermined prize structure for each game and are accrued as tickets are sold to the retailer.

#### Cash

Cash consists of funds on deposit with the State Treasurer and banks. The cash on deposit with the State Treasurer is pooled with other Missouri state funds and is fully secured by the depository institutions holding the funds.

### 3. ADDITIONAL LEGISLATIVE TRANSFERS:

On June 28, 1991, the state legislature required the Lottery to transfer the balance of retained earnings of \$8,595,479 to the General Revenue Fund. The retained earnings balance consisted of untransferred earnings from the first year of operation, June 11, 1985, to June 10, 1986. No additional legislative transfers were required during fiscal year 1992.

### 4. ON-LINE TICKET SALES:

On-line ticket sales consist of the following:

|                              | <u>1992</u>          | <u>1991</u>         |
|------------------------------|----------------------|---------------------|
| LOTTO                        |                      |                     |
| Missouri Megabucks/Powerball | \$ 43,011,602        | \$41,107,439        |
| (Lotto*America)              |                      |                     |
| SUPERCASH                    | 31,475,374           | 34,702,422          |
| PICK 3                       | 13,054,364           | -                   |
|                              | 29,042,335           | 23,897,703          |
|                              | <u>\$116,583,675</u> | <u>\$99,707,564</u> |
|                              | =====                | =====               |

### 5. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

|   | <u>1992</u>        | <u>1991</u>        |
|---|--------------------|--------------------|
| Land  |                    |                    |
| Building  | \$ 184,512         | \$ 184,512         |
| Computers and related software                  | 2,505,721          | 2,505,721          |
| Equipment                                       | 2,007,080          | 2,212,281          |
| Autos   | 2,349,241          | 2,366,851          |
| Leased equipment                                | 1,203,336          | 1,155,971          |
|   | 507,536            | -                  |
|   | <u>8,757,426</u>   | <u>8,425,336</u>   |
| Less- Accumulated depreciation and amortization | 5,137,267          | 5,030,511          |
|   | <u>\$3,620,159</u> | <u>\$3,394,825</u> |
|   | =====              | =====              |

### 6. PENSION PLAN:

The Lottery participates with other state agencies in the Missouri State Employees' Retirement System (MOSERS) plan. The plan is a multiagency, defined benefit plan that covers substantially all of the Lottery's employees. The Lottery's contributions to the plan are set annually by MOSERS and, in fiscal 1992 and 1991, were approximately \$408,000 and \$425,000, respectively.

monies are refundable to MUSL members upon termination of the member's agreement with MUSL or upon disbanding of MUSL. At June 30, 1992, the Lottery's portion of the prize reserve fund totaled approximately \$1,900,000.

9. GRAND PRIZE WINNERS TRUST ACCOUNT:

Prior to March 1990, the Lottery purchased annuity contracts from selected insurance companies to fund "LOTTO" grand prize claims. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, neither the value of the annuities nor the value of the related future payments are reflected in the accompanying balance sheets. Future installment payments to be made to grand prize winners by these insurance companies totaled approximately \$101 million at June 30, 1992.

In March 1990, to fund future payments under subsequent prize claims, the Lottery began purchasing U.S. Treasury zero coupon bonds, with maturities approximating deferred grand prize annuity installment amounts and due dates. The securities purchased are held in the Lottery's name in safekeeping by the Federal Reserve Bank in a separate account for the grand prize winners trust account. The investments in these securities are carried at cost, adjusted for the accretion of discounts based on the purchase yield and the maturity date. Accretion on these investments is not recognized as revenue of the Lottery but is credited to deferred grand prize liability. These securities are not subject to trading and are intended to be held to maturity. The market value of these securities at June 30, 1992 and 1991, was approximately \$44,109,000 and \$22,938,000, respectively. The maturity value of securities held at June 30, 1992 and 1991, was \$79,638,000 and \$45,091,000, respectively.

Scheduled grand prize installment payments to be funded by the maturing U.S. Treasury zero coupon bonds, as of June 30, 1992, are as follows:

| <u>Fiscal Year Ending</u>      | <u>Amount</u> |
|--------------------------------|---------------|
| June 30, 1993                  | \$ 4,373,000  |
| June 30, 1994                  | 4,373,000     |
| June 30, 1995                  | 4,373,000     |
| June 30, 1996                  | 4,373,000     |
| June 30, 1997                  | 4,373,000     |
| Thereafter                     | 57,773,000    |
|                                | -----         |
| Total installment payments due | 79,638,000    |
|                                |               |
| Less- Interest portion         | 37,918,289    |
|                                | -----         |
|                                | \$41,719,711  |
|                                | =====         |